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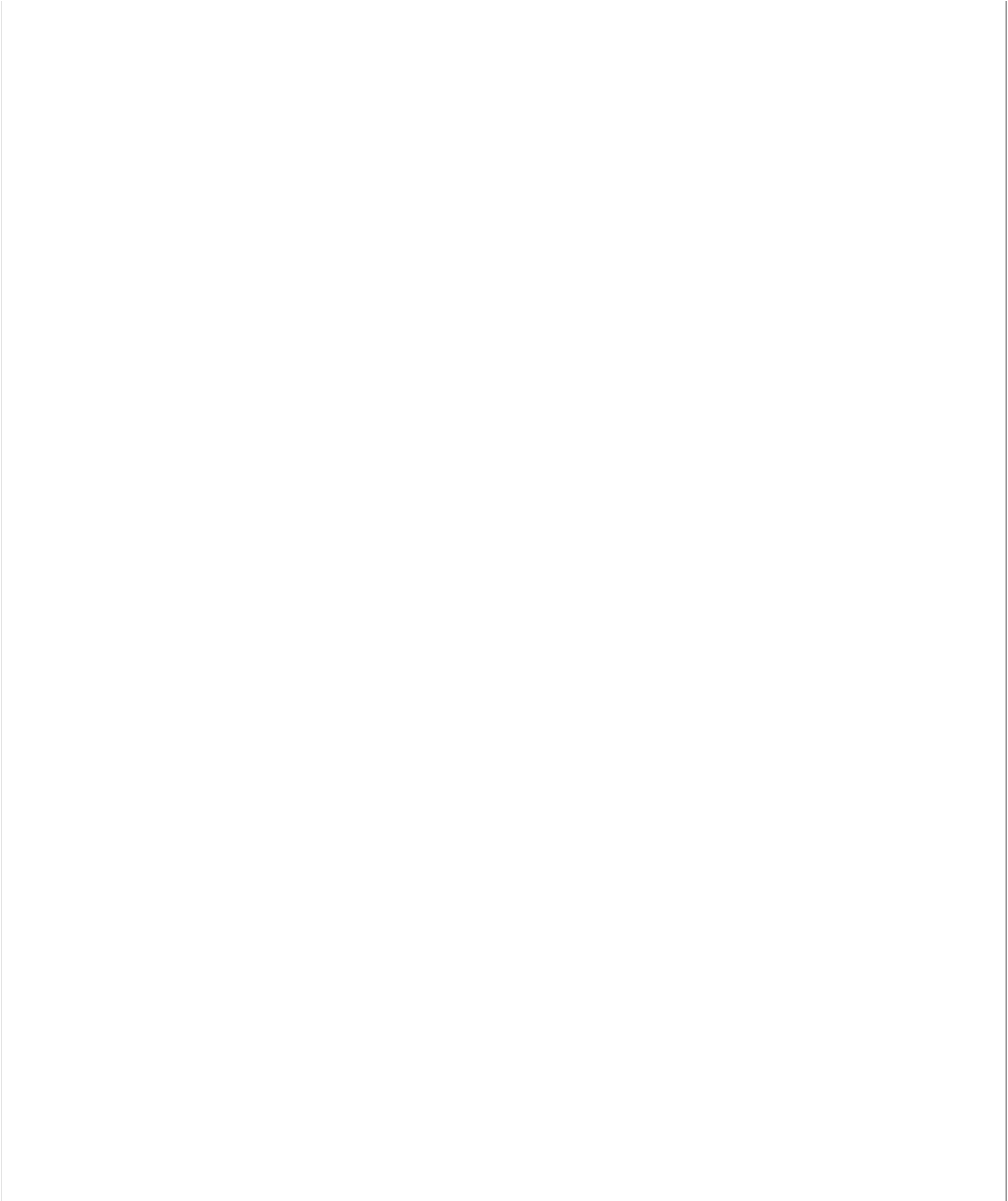
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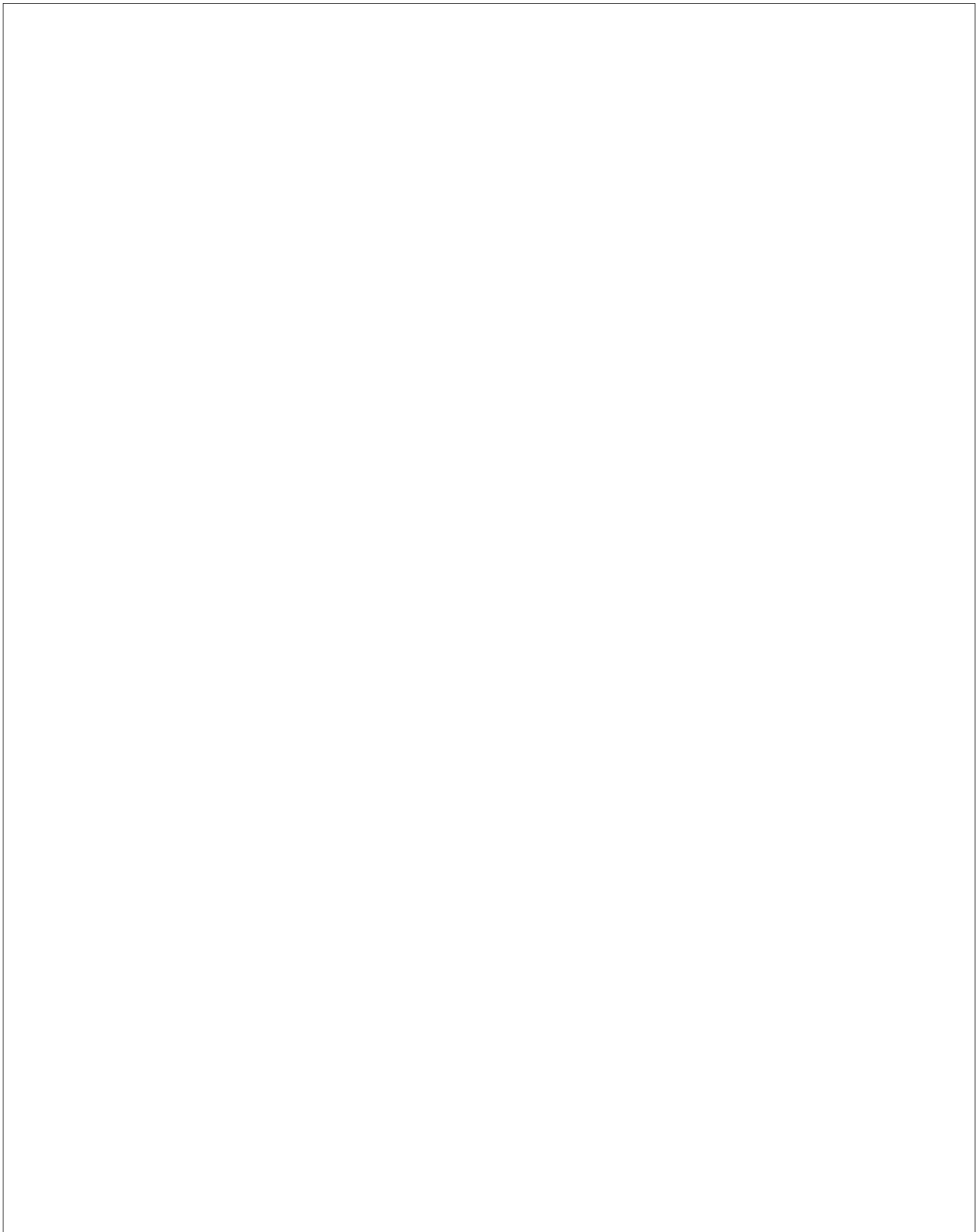
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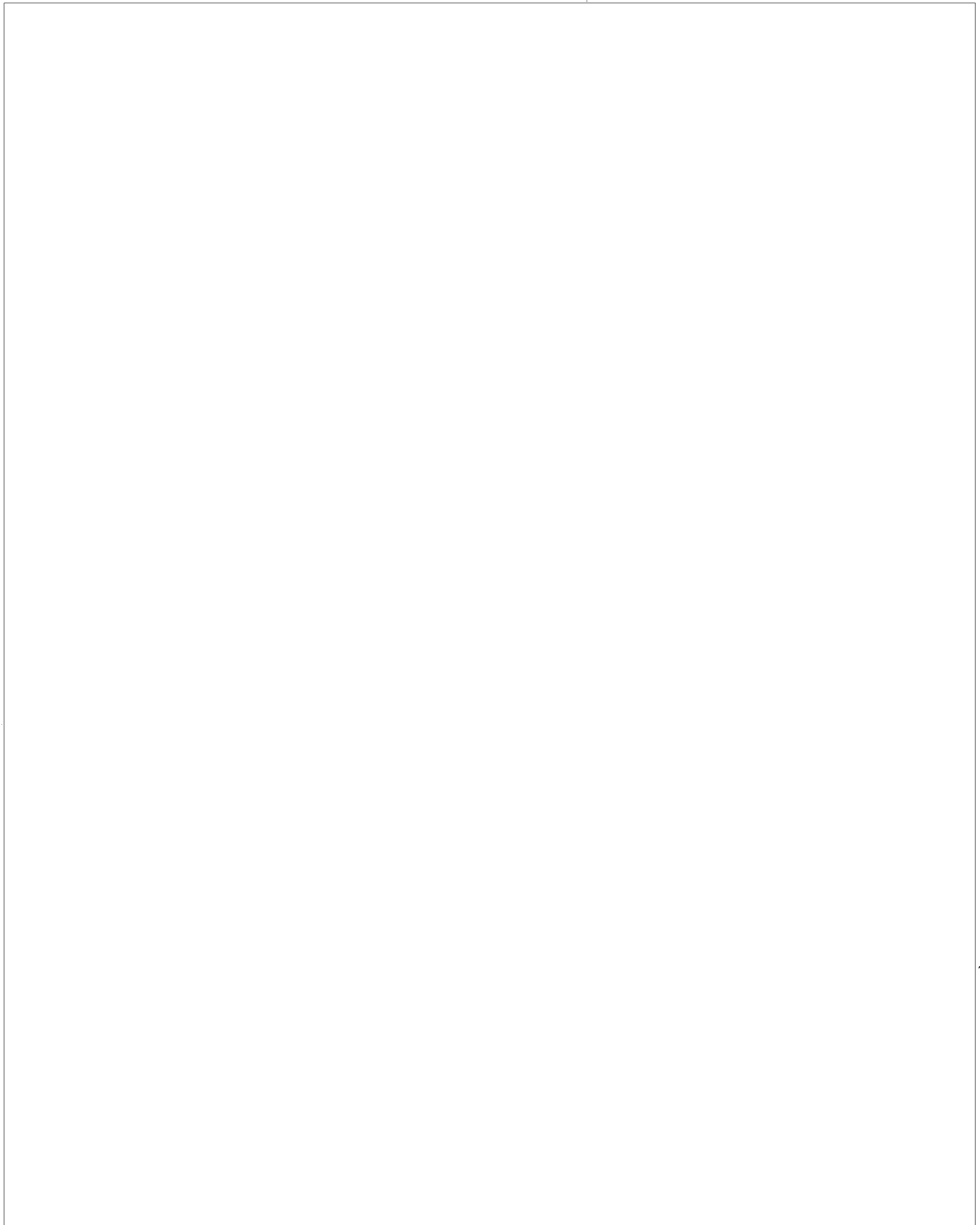


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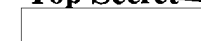


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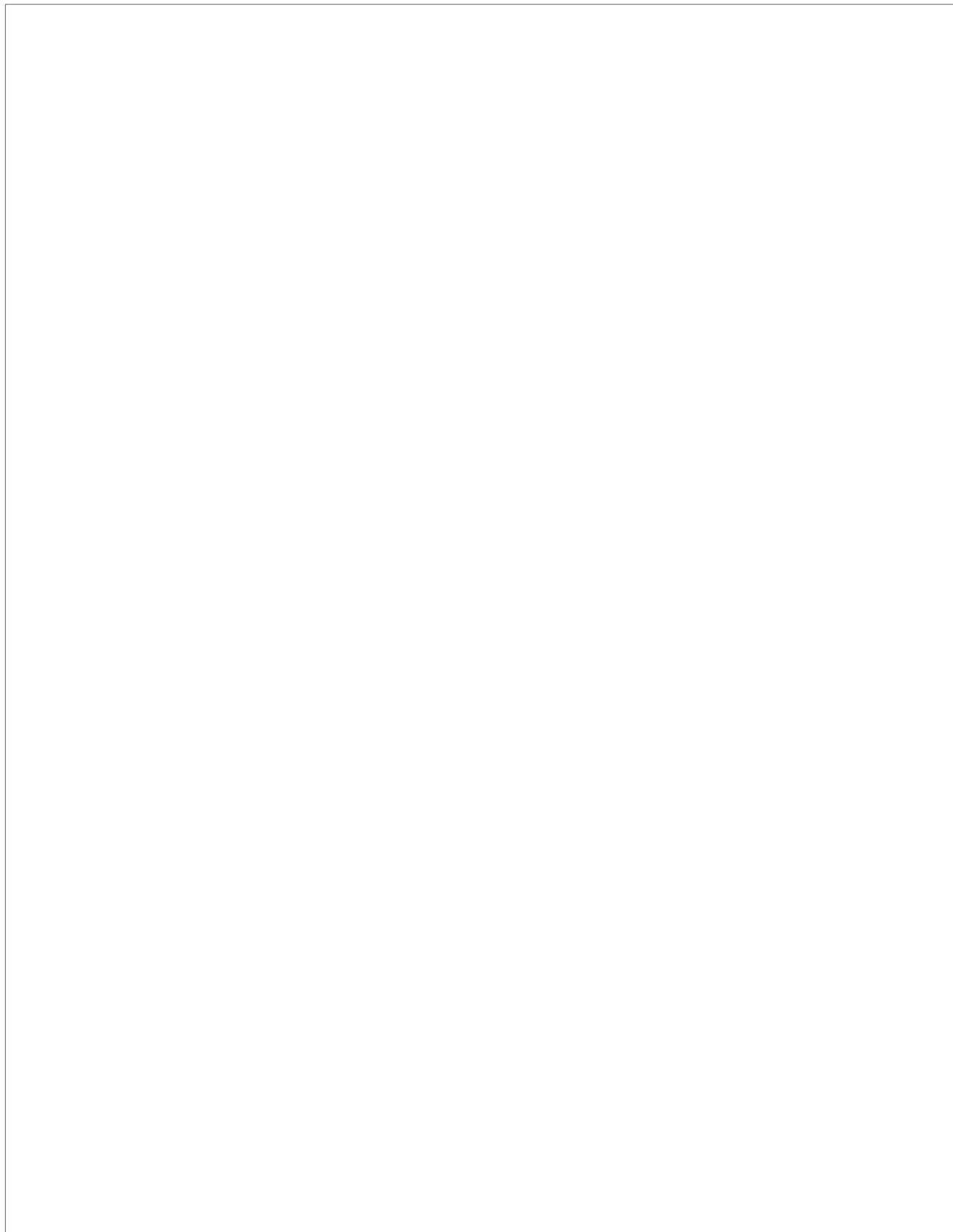
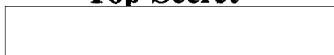


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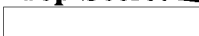


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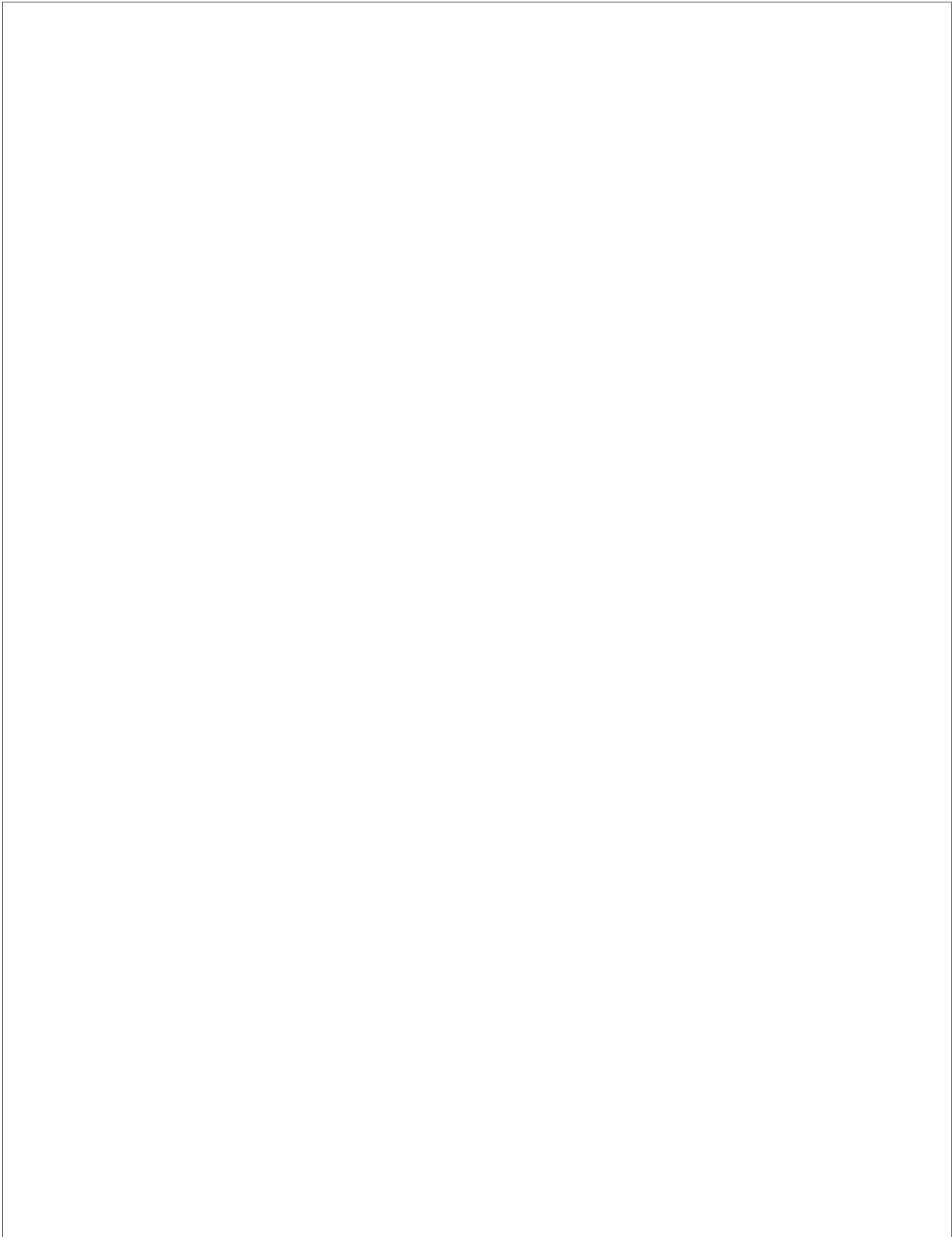


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USSR: Yel'tsin Challenges Center on Nuclear Program

The Russian Republic Congress of People's Deputies has banned the construction of new nuclear power plants within its boundaries after this year and until the national government demonstrates it can safely store and dispose of nuclear waste.

Comment: The directive, signed by Chairman Boris Yel'tsin, challenges the center's authority over facilities important to both the military and civil nuclear programs. Although the republic does not have legal authority to interfere with the all-union nuclear industry, in practice it has the power to stop construction. A literal interpretation of the ban would prevent construction at just six new sites, most of which already face local opposition. The call for a program to manage radioactive waste safely, however, could affect currently operating plants. The Russian Republic produces about 60 percent of the USSR's nuclear-generated electricity and accounts for nearly all of the country's planned expansion of the nuclear power industry scheduled for this decade. The directive probably will speed up the central government's efforts to identify publicly and eventually clean up formerly secret facilities like the plutonium production complexes at Chelyabinsk, Tomsk, and Krasnovarsk; that task is likely to require foreign assistance.

USSR: Miners To Strike in Mid-July

Coal miners in the Ukraine, Arctic Russia, and western Siberia yesterday announced their intent to conduct a coordinated one-day strike on 11 July, the anniversary of the walkout last year.

Comment: The miners' frustration at the government's failure to fulfill the strike settlement reached last August and the continuing deterioration of living standards have led to unbridled hostility toward the party and government leadership, particularly Premier Ryzhkov but also President Gorbachev himself. Delegates from mining regions assailed Gorbachev at the Ukrainian party congress last week for plunging the country into an economic crisis. Miners' leaders admit the walkout next month will be only a symbolic strike, meant to vent the anger of the increasingly uncontrollable rank and file. It is the brainchild of the two-month-old Confederation of Labor workers' alliance and probably will be supported by some metallurgical, chemical, auto, oil, and transportation workers as well. Although brief, it could turn out to be the strongest display of worker solidarity to date.

USSR: Constitutional Committee Defends Civil Liberties

Its initial actions suggest the new Constitutional Oversight Committee will move aggressively to expand the protection of civil liberties as it reviews actions by the Soviet Government. Last week, it declared unconstitutional longstanding labor legislation that denied several categories of workers—23 million, including supervisors and professionals—the right to court appeal if fired. The committee has decided to review both the system requiring citizens to hold municipal residence permits and President Gorbachev's decree transferring the power to regulate demonstrations in central Moscow from municipal to central authorities.

Comment: By tackling controversial issues, the committee is gaining credibility and living up to its charter. It does not, however, have the power to enforce its findings. This shortcoming may lead democratic reformers to press for additional human rights legislation and constitutional changes that would increase the committee's powers.

INDIA: Kashmiri Militants Split

The Jammu and Kashmir Liberation Front, the largest separatist group opposing Indian rule, on Wednesday announced a cease-fire for the Srinagar area and urged other militant groups to observe it. At the same time, however, the Front vowed to increase attacks on Indian targets elsewhere in the state. On the same day, a coalition of Islamic groups rejected the Front's earlier unilateral declaration of a provisional government for Kashmir.

Comment: Relations between the secularly oriented Front and Islamic groups that are increasingly influential in Kashmir have been strained in recent weeks; the Islamic groups are unlikely to observe the cease-fire. The Front probably chose to announce it and the provisional government to regain political momentum.

LIBERIA: Capital Remains Tense

Monrovia remains tense as more military rampages are anticipated. Some stores opened briefly yesterday, but most soon closed; by early evening the city was virtually deserted. Banks say they will not reopen until next week. Army troops reportedly returned to the port area Wednesday night to loot, and groups of armed soldiers were seen riding in commandeered taxis and private vehicles yesterday. [redacted] the army has regained control of Roberts International Airfield, but the rebels may have captured and shut down Monrovia's water purification plant. [redacted]

Comment: Monrovia are likely to continue to flee as the army increasingly loses control of its troops and living conditions further deteriorate. [redacted]

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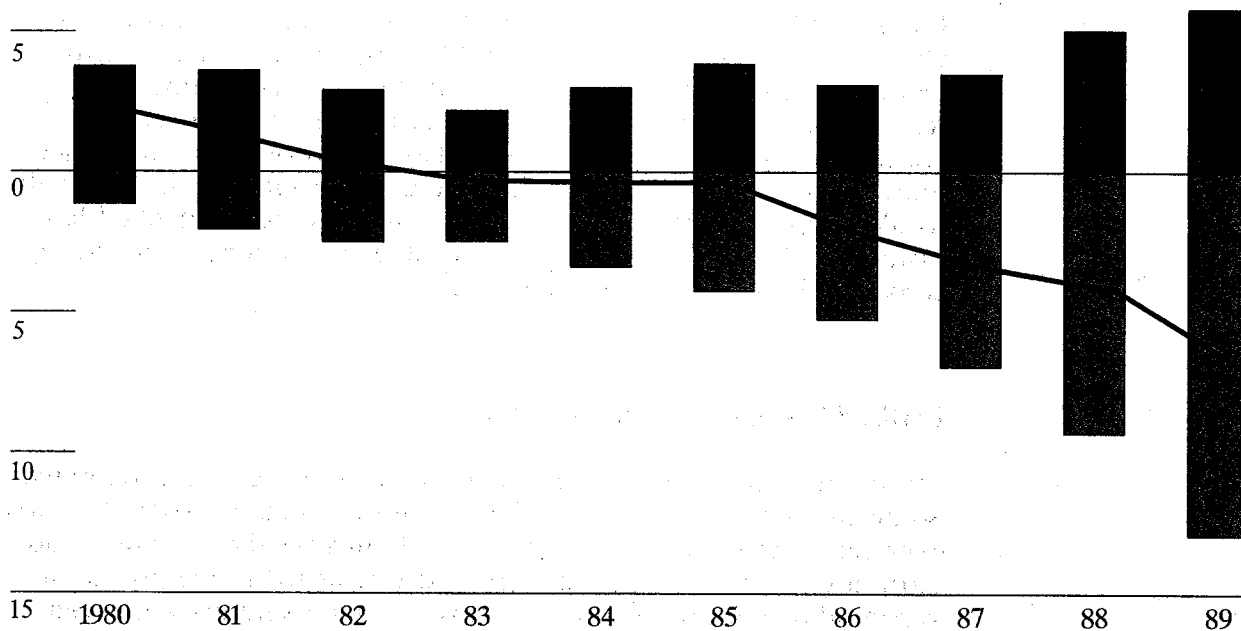
US-China Trade, 1980-89

■ US exports to China
■ US imports from China

— Trade deficit

Billion US \$

10



Source: US Commerce Department.

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CHINA: Showing Some Flexibility on Trade

[redacted] Beijing is willing to engage in trade talks on the burgeoning US trade deficit with China. Last year that deficit expanded by nearly 70 percent to \$7 billion, according to US data. In the first third of this year, US exports to China were 14 percent less than for the same period last year while imports grew by more than a third, suggesting the deficit this year might reach an alltime high of more than \$10 billion. [redacted]

Comment: Beijing's apparent willingness to address the issue breaks with its customary insistence on using official Chinese data—they do not report exports to the US via Hong Kong and other entrepôts and show the US running a surplus. Beijing probably is concerned Washington will enact unilateral restrictions if the trade deficit continues to grow; it is likely to make a modest increase in purchases from the US to stave off such a move. China probably also hopes to encourage US support for an early resumption of talks on its bid to join GATT. China will continue to target the US market for its export sales, however, and US exporters are still likely to face a wide variety of import restrictions, suggesting the trade imbalance will remain.

[redacted]

INDONESIA-CHINA: To Renew Diplomatic Ties

During his visit to Beijing next week, Indonesian Foreign Minister Alatas plans to discuss the timing for a restoration of diplomatic relations, possibly late this year, and to sign a payment agreement on Jakarta's \$84 million debt to China. [redacted]

[redacted]

[redacted] Alatas and Chinese Foreign Minister Qian Qichen will also discuss the Cambodian conflict; they are expected to work out the status of stateless ethnic Chinese living in Indonesia,

[redacted]

Comment: Jakarta believes normalization will bring international and regional prestige and enhance its image of itself as a leader of the Third World and the Nonaligned Movement. Both sides hope the move will increase trade, although Jakarta will not forsake lucrative trade and investment ties to Taiwan. Beijing is eager to restore relations, in part because Singapore has indicated it will follow suit, and to demonstrate that Western sanctions have failed to isolate China. It has been obliging on the debt issue in the hope of announcing the normalization before the Asian Games at Beijing in September, but Jakarta probably will push for late this year or early next year because of military and public resistance to restoring ties with Beijing. [redacted]

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In Brief

USSR

- Ukrainian Premier Vitaliy Masol reelected yesterday on third ballot . . . nationalist Rukh deputies fiercely oppose him, backed their reform candidate . . . indicates Communist traditionalists still dominate split legislature.
- Culture Minister Gubenko led five-minute silent protest yesterday, interrupting artistic performances throughout USSR . . . follows recent hunger strike at Bol'shoy . . . "cultural intelligentsia" clearly discontent with perceived delays in *glasnost*, *perestroyka*.
- Lithuanian legislature discussing moratorium on independence declaration . . . Prime Minister Prunskiene urging quick approval to permit talks with Moscow, but many legislators demanding Soviet guarantees of legal independence.
- Moscow radio calls Hungarian legislature's decision to negotiate withdrawal from Warsaw Pact rash, emotional . . . says will undermine talks on Germany, new European security order . . . USSR insisting Pact necessary while NATO exists.
- *Izvestiya* warns USSR may delay troop withdrawals because of Hungary's inflexibility on payment for facilities Soviet forces evacuating . . . USSR concerned about setting precedent . . . controversy predates Budapest's decision to leave Pact.

Americas

- Initial Latin reactions to President Bush's Hemispheric economic policy address generally favorable . . . Brazil's Collor terms US steps "wide-ranging, daring, and innovative" . . . Argentina's Menem says measures bolster economic reform.

East Asia

- Liu Zhongyi, 59, replaced beleaguered Chinese Agriculture Minister yesterday . . . agrarian specialist, staunch advocate of Beijing-level planning . . . should significantly help critics slow rural reform, decentralization of agriculture.

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USSR Traditionalists: Short-Term Strengths, Long-Term Weaknesses

The traditionalists' success at the Russian Communist Party's congress shows their strong hold on the party and government apparatuses and on the security forces. But they lack an ideology, and their leaders—Ligachev, Gidaspov, and Polozkov—have been unable to rally broad public backing. Support for their agenda of a decisive restoration of central authority and a rollback of economic reform is widespread, however, among key groups in the political system:

- **The Apparatus.** Traditionalist opposition to Gorbachev remains entrenched in the party leadership, the apparatus of the Central Committee, and the ministries. Traditionalists dominated elections of delegates to the Russian party congress and to the CPSU congress in the Russian Republic, Belorussia, and the Ukraine.
- **Workers,** angry with inflation and unemployment, are a target of traditionalists. Last year labor elements organized the United Russian Workers Front, which has several hundred thousand members but little broad support.
- **Military** officers are increasingly politicized and polarized along generational lines. Traditionalists in senior commands and political officers reportedly have fixed many elections so that a million party members in the armed forces would select hardline delegates to the party congress.
- **The KGB** has long been divided over Gorbachev's reforms; those responsible for internal security are concerned about the destabilizing effects of *perestroyka*, and some in the internal security directorates have publicly appealed for greater press censorship and a tougher law-and-order policy.
- **Russian chauvinist intellectuals** are playing a growing role in opposing *perestroyka*. They have taken over several key journals and publishing houses and have organized mass-based orthodox political movements in the Russian heartland.

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Special Analysis

USSR:

Gorbachev Faces Political Heat

With the 28th Communist Party Congress opening Monday, General Secretary Mikhail Gorbachev appears increasingly isolated and may be losing control of political developments. With the recent victories of Boris Yel'tsin and other democratic reformers, state institutions are increasingly under the control of the left, while the traditionalist tone of last week's Russian party congress suggests the national party is in danger of being taken over by the right. A traditionalist victory next week could set the party on a collision course with the more democratic state institutions.

Gorbachev apparently has been assuming that the greatest threat to his leadership would come from democratic reformers. Watchful of the left and distracted by the disintegrating economy and events in the Baltic republics, he apparently has underestimated the mounting challenge posed by party traditionalists.

Several Soviets claim Gorbachev failed to control the delegate selection process for the Russian and Soviet party congresses, although delegate support was key to reforming the party. According to Yel'tsin, Gorbachev's indifference allowed the scathing criticism of his leadership and the election of traditionalist Ivan Polozkov as head of the Russian party. Although Gorbachev may have counted on reformers at the Russian party congress to defend him, only a few independents such as Moscow party chief Prokofyev spoke in his support. Apparently alarmed by the traditionalists' strong showing, Gorbachev early this week considered postponing the Soviet congress until this fall.

Traditionalism is making itself heard in the other Slavic Communist parties as well. Last week Ukrainian Communists elected longtime reform opponent Stanislav Gurenko as their first secretary, while regional leaders assailed Gorbachev for leading the party and the economy into crisis. According to *Izvestiya*, the Byelorussian party chief last week publicly criticized Gorbachev's leadership of the party and state.

Possible Showdown

The congress opening Monday is shaping up as a showdown between Gorbachev and traditionalists who want to preserve the party's monopoly over the political system and to put the brakes on his reforms. Gorbachev's position as party chief is also vulnerable, and

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A Two-Headed Party?

The proposed revision of the Soviet Communist Party bylaws, published yesterday, would divide the top party leadership between a Chairman and a First Secretary. The Chairman, elected by the party congress, would head a new Presidium, which would replace the Politburo as the party's leading policymaker. The Central Committee would elect a First Secretary to oversee the Secretariat and the work of the powerful party apparatus.

The proposal poses a danger for Gorbachev, who clearly would like to retain control of the party. He presumably would want the post of Chairman since it would allow him to give up day-to-day management of the party and to refute criticisms that no one person can run both the party and the state. The election of a like-minded thinker to the post of First Secretary would be critical, however, since the First Secretary would have the power to obstruct Gorbachev's policies and build an independent power base. The proposal to split the top party leadership was not mentioned in pregress debates and may be a product of recent compromise with traditionalists.



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the congress could become a referendum on his leadership. Critics on his left and right, including Politburo member Ligachev, have called for him to step aside and appear poised to challenge him. If Gorbachev fears the traditionalists will prevail, he might try a bold step to regain the initiative. He might risk offering to resign at the outset of the congress, for instance, hoping the delegates would find they have no real alternative.

Losing His Edge

With the loss of leadership allies in the Russian party and state, Gorbachev appears to be losing some of his political magic. He seriously miscalculated his tactics against Yel'tsin's bid to become the Russian Republic's Chairman, and he contributed to panic in the streets of Moscow by allowing the premature announcement of price hikes. Gorbachev also appears to have seriously misjudged the mood of delegates to the party congress and revealed political weakness by contemplating a postponement of the conclave.

Gorbachev apparently has few options for responding to his problems. He must retain the allegiance of the party apparatus, which still controls many institutions through its ubiquitous presence nationwide, and must also come to terms with mounting public pressures for faster change. The nascent traditionalist cast of the party, however, appears seriously out of step with Soviet public and state institutions, further eroding the party's credibility and appeal. At the congress Gorbachev probably will try to reestablish a centrist majority in the party through compromise or grandstanding, but this would be a temporary fix at best. The growing alienation between party and state is likely to continue, possibly leading to a bitter confrontation for primacy.

The German Economy in the Year 2000

Germany will be a more potent economic force after unification but hardly on the scale of the US or Japan. A unified Germany would account for only 8.2 percent of total OECD GNP this year, about one-fifth of US output. A more dynamic German economy would, however, lead Western Europe.

Germany's relative weight will not increase by the year 2000, even after a decade of rapid growth. CIA econometric projections indicate the unified country will grow considerably faster in the 1990s than West Germany alone would have, 3.2-percent versus 2.2-percent average annual growth. But this growth rate is barely above the projected OECD or US growth rates of about 3 percent, and the relative position of the German economy will be much the same in the year 2000. Even under the more optimistic forecasts of German officials—4-percent growth in the 1990s—German GNP at most would account for 8.8 percent of OECD GNP.

Share of OECD

Percent

	1989	2000	
		Without Unity	With Unity
US	39.9	39.8	39.5
Japan	14.7	15.9	15.5
Germany	7.2 ^a	6.6 ^a	8.2
France	6.3	5.8	5.7
Italy	6.2	6.0	5.9
UK	6.1	6.0	5.9
Canada	3.9	4.0	3.8

^a West Germany.

Special Analysis

GERMANY:

Economic Union Sets Up the Endgame

West German absorption of the East German economy, which begins Sunday, will make unification irreversible regardless of the next German election or the two-plus-four talks. Bonn should be able to manage the short-term economic and social dislocations in eastern Germany that German economic and monetary union (GEMU) will bring, but Chancellor Kohl will pump public funds into East Germany, risking inflation and higher interest rates, if the strains seem to threaten his reelection chances in December. On balance, GEMU will benefit the German, European, and global economies by paving the way for more dynamic German growth and providing new export markets.

East Berlin has agreed to abandon its command economy in favor of a free market system and to cede sovereignty over economic policy to West Germany. The worthless ostmark will be replaced by the powerful deutsche mark. East German authorities will free prices, foster competition, and remove restrictions on foreign investment. The process will be eased by East Berlin's adoption of West German commercial, tax, and social structures.

Impact in Germany—Prognosis Favorable

East Berlin's commitment to a free market system and Bonn's willingness to provide substantial financial support augur well for the East German transition to a market economy. The booming West German economy should also function as a safety valve. Private forecasts and CIA estimates expect growth to remain about 4 percent this year and next, creating thousands of new jobs for East Germans. Nonetheless, GEMU will bring major changes in the near term: a fourth of all East German firms might fail this year, and unemployment may top 20 percent in the next six months. Bonn and East Berlin are banking on a surge of public and private investment in East Germany to cushion the impact.

In the next few years, foreign investment and adoption of Western production modes should spark an economic renaissance in eastern Germany. It probably will receive the \$600 billion it will need to achieve the West German standard of living by the end of this century; its growth should average 9 percent per year.

Risks for Kohl

The private investment needed to create jobs and to persuade East Germans that they face only temporary economic pain will be

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Economic Union and the Two-Plus-Four Talks

Economic and monetary union beginning Sunday will increase East Germany's reliance on Bonn and further reduce East Berlin's clout in the two-plus-four negotiations. Bonn's leverage has grown as GEMU has neared; parties in the East German governing coalition have dropped their opposition to Chancellor Kohl's timetable for all-German elections this year and are following his lead in trying to conclude the two-plus-four talks before the votes. Continuing protests against Soviet troop contingents and a hostage incident this week involving a Soviet soldier and an East German family also make East Berlin anxious for quick agreement on a new legal basis for the presence of Soviet forces.

East Berlin may cast itself as an honest broker and propose extending the one-day political directors' meeting set for Wednesday in East Berlin and a second meeting before the Paris two-plus-four session next month as a gesture of support for Soviet Foreign Minister Shevardnadze's call to intensify work on an agreement. The East Germans probably will also lobby vigorously for institutionalizing the CSCE process as part of a new European security architecture, as Prime Minister de Maiziere did on the fringes of this week's EC summit in Dublin and with Prime Minister Thatcher in London. A less likely possibility is that the East Germans will revive their proposal for a security zone in Central Europe as a compromise between a unified Germany in NATO and Moscow's call for NATO's transformation and a transition period for both Germanys.

Kohl probably can avoid an embarrassing fight with East Berlin on these issues. As long as the Germans believe that Soviet cooperation hinges on the economic sweeteners Bonn is prepared to offer, East Berlin has little option but to follow his lead.

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impeded if wage hikes in East Germany exceed productivity gains, if property ownership remains unresolved, or if uncertainties develop about the timing of political union. Any of these developments could leave Bonn with two unpalatable options:

- Appropriating West German public funds to subsidize the East's economy, fueling anxiety in the West that Kohl will break his pledge not to raise taxes and among Bonn's G-7 partners that interest rates will jump.
- Riding out the economic and social dislocations, the resultant policy feud with East Berlin, a new surge of emigration, and possibly increased sympathy for the Social Democrats and extremists of all political stripes.

Impact on Europe and the US

the EC will grow an extra quarter of a percentage point over the next year as increasing East and West German demand for foreign goods sparks an export boom; these gains will diminish over time. German trade with Eastern Europe and the USSR probably will decline over the next year as the East buys more from the West and as German investment centers on eastern Germany. By the mid-1990s, however, economic expansion in eastern Germany should benefit Eastern Europe, especially as new firms build on the region's links to the East.

Exports to Germany from the US may rise by \$15 billion next year, more than offsetting the expected mild increase in US interest rates that would accompany higher German interest rates. The result will increase US economic growth in 1991 about three-tenths of a percentage point. If the economic and social dislocations from GEMU are greater than expected, however, Bonn would not hesitate to ignore any US preferences and reduce aid to the rest of Eastern Europe or Central America.

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Japan's Subsidies for Rice Farmers

The expected LDP move to cut government-set rice prices continues a four-year-long effort to rationalize rice farming, a key sector of Japanese agriculture, in order to reduce budget outlays and increase efficiency. Japan's price support system, instituted after World War II to alleviate food shortages, has become increasingly costly: Tokyo spent more than \$20 billion on assistance to rice producers last year. Moreover, price subsidies have helped keep the farm sector notoriously inefficient. The average Japanese grain farmer produces only 4 percent as much as his US counterpart.

Gradual annual reductions of 3 to 5 percent begun in 1986 were halted after the price cut in 1988 because the LDP, facing elections in July 1989 and last February, needed to woo rural voters disaffected by earlier liberalization measures. The anticipated resumption of price cuts this year in part reflects the fact that the party does not have to call new elections until July 1992. It apparently believes it can repair any damage to its rural support base before then.

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Special Analysis

JAPAN:

Growing Debate on Rice Policy

The ruling party's imminent decision to cut price supports for rice farmers probably will fuel a national debate on the once sacrosanct ban on imported rice; although public sentiment favors liberalizing the market, the electoral clout of rural voters means Tokyo will move slowly.

The Liberal Democratic Party reportedly will announce a cut in price supports for rice growers next week. A week ago Komeito, the second-largest opposition party, reversed itself and called for a review of the total ban on rice imports. Former Prime Minister Takeshita, who is an LDP kingpin and a key supporter of Prime Minister Kaifu, has praised Komeito's position, but agricultural groups have responded with a wave of protests.

Public and ruling-party attitudes toward government support for rice farmers have been shifting. Opinion polls indicate 71 percent of Japanese consumers favor a partial or total opening of the rice market; only 29 percent did in 1987. Press reports suggest most politicians and officials recognize that dismantling costly subsidies and import barriers will lower prices for hard-pressed Japanese consumers—a constituency the LDP hopes to cultivate—and remove a major irritant in trade relations. Moreover, Tokyo is strongly committed to completing the GATT negotiations by December, and failing to address the rice issue would expose it to criticism for impeding a successful outcome.